

REPORT OF THE AUDITOR-GENERAL TO KWAZULU-NATAL PROVINCIAL LEGISLATURE AND COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF UMDONI MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2009

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Umdoni Municipality which comprise the statement of financial position as at 30 June 2009, the statement of financial performance, the statement of changes in net assets, the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages [xx] to [xx].

The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the Standards of Generally Recognised Accounting Practice and in the manner required by the Local Government Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. Paragraph 11 *et seq.* of the Standards of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Umdoni Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

8. In my opinion the financial statements present fairly, in all material respects, the financial position of Umdoni Municipality as at 30 June 2009 and its financial performance and its cash flows for the year then ended, in accordance with Standards of Generally Recognised Accounting Practice and in the manner required by the MFMA.

Emphasis of matters

Without qualifying my opinion, I draw attention to the following matters:

Unauthorised expenditure

9. As disclosed in note 34 to the financial statements, unauthorised expenditure of R21 million was incurred by the municipality as the total expenditure of the municipality exceeded the approved budget. R1.7 million thereof related to unbudgeted expenditure for the running of the clinics and was condoned by the municipality during the year under review.

Irregular expenditure

10. As disclosed in note 34 to the financial statements, irregular expenditure to the amount of R1,68 million was incurred, as supply chain management regulations were not adhered to.
11. As disclosed in note 34 irregular expenditure of R200 000, was incurred due to a payment to an entity outside government without complying with section 67 of MFMA.

Restatement of corresponding figures

12. As disclosed in note 35 to the financial statements, the corresponding figures for fixed assets and accumulated surplus for the year ended 30 June 2008 has been restated by a total of R3,27 million as a result of the error of incorrectly recording the payment for the valuation roll, discovered during 2009.

Other matters

Without qualifying my opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Unaudited supplementary schedules

13. The municipality provided supplementary information in the financial statements on whether resources were obtained and used in accordance with the legally adopted budget, in accordance with GRAP 1 *Presentation of Financial Statements*. The supplementary budget information set out on pages XX to XX do not form part of the financial statements and is presented as additional information. Accordingly I do not express an opinion thereon.

Non-compliance with applicable legislation

Municipal Finance Management Act

14. The municipality did not comply with section 65(2)(e) of the Municipal Finance Management Act that requires all payments to be made within 30 days.

Municipal Systems Act

15. Senior municipal staff did not sign their performance agreements within one month of the start of the financial year as required by section 57(1)(b) of the Municipal System's Act.

Governance framework

16. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the and key governance responsibilities addressed below:

Key governance responsibilities

17. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	<input type="checkbox"/>	

No.	Matter	Y	N
Quality of financial statements and related management information			
2.	The financial statements were not subject to any material amendments resulting from the audit.		<input type="checkbox"/>
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	<input type="checkbox"/>	
Timeliness of financial statements and management information			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines section 126 of the MFMA.	<input type="checkbox"/>	
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.	<input type="checkbox"/>	
Development and compliance with risk management, effective internal control and governance practices			
6.	Audit committee		
	<ul style="list-style-type: none"> The municipality had an audit committee in operation throughout the financial year. 	<input type="checkbox"/>	
	<ul style="list-style-type: none"> The audit committee operates in accordance with approved, written terms of reference. 	<input type="checkbox"/>	
	<ul style="list-style-type: none"> The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA. 	<input type="checkbox"/>	
7.	Internal audit		
	<ul style="list-style-type: none"> The municipality had an internal audit function in operation throughout the financial year. 	<input type="checkbox"/>	
	<ul style="list-style-type: none"> The internal audit function operates in terms of an approved internal audit plan. 	<input type="checkbox"/>	
	<ul style="list-style-type: none"> The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA. 	<input type="checkbox"/>	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.	<input type="checkbox"/>	
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.		<input type="checkbox"/>
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	<input type="checkbox"/>	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(1)(c) (i) of the MFMA.	<input type="checkbox"/>	
12.	Delegations of responsibility are in place, as set out in section 79 of the MFMA.	<input type="checkbox"/>	
Follow-up of audit findings			

No.	Matter	Y	N
13.	The prior year audit findings have been substantially addressed.	<input type="checkbox"/>	
14.	SCOPA resolutions have been substantially implemented.	<input type="checkbox"/>	
Issues relating to the reporting of performance information			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.		<input type="checkbox"/>
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		<input type="checkbox"/>
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the municipality against its mandate, predetermined objectives, outputs, indicators and targets section 68 of the MFMA.	<input type="checkbox"/>	
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	<input type="checkbox"/>	

18. Key governance strategies have been implemented, however, a lack of review over the financial reporting process by those charged with the governance of the municipality and outstanding policies on irregular expenditure and unauthorised expenditure have resulted in material adjustments to the financial statements. The municipality did not have a municipal SCOPA as at 30 June 2009.

Investigations

19. The municipality has completed four investigations involving employees that have been suspended for misconduct. The employees in question have functions relating to expenditure, revenue and inventory. The investigations were conducted into the circumstances of the misconduct and in order to present cases for disciplinary hearings.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

20. I was engaged to review the performance information.

The accounting officer's responsibility for the performance information

21. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

The Auditor-General's responsibility

22. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.
23. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
24. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the findings reported below.

Findings (performance information)

Non-compliance with regulatory requirements

25. The integrated development plan of the Umdoni Municipality did not include the key performance indicators and performance targets determined in terms of its performance management system, as required by sections 26(i) and 41(1)(b) of the MSA and regulation 12 of the Municipal Planning and Performance Management.
26. Furthermore the objectives of the integrated development plan are not clearly linked to the objectives and targets on the service delivery budget implementation plan.

Inadequate quarterly reporting on performance information

27. The quarterly reports of the municipality did not track outputs, indicators and targets as per the approved integrated development plan and therefore did not facilitate effective performance monitoring and evaluation.

Reported performance information not reliable

28. The actual achievements with regard to all indicators and targets specified in the 2008-09 integrated development plan for the objectives universal basic service provision and housing were not reported on throughout the financial year.

APPRECIATION

29. The assistance rendered by the staff of the Umdoni Municipality during the audit is sincerely appreciated.

Pietermaritzburg

30 November 2009



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence